Microcredit for enterprise in the UK as an ‘alternative’ economic space

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Abstract

One response to the major societal challenge of financial exclusion in the United Kingdom (UK) is microcredit lending for enterprise. Typically delivered via Community Development Finance Institutions (CDFIs) in the UK, these lending institutions can be conceptualised as 'alternative' economic spaces. Yet the nature of their alterity is unclear as categorisations of alternative-oppositional or alternative-substitute institutions are possible and could also be influenced by complexities in the UK relating to the welfare system and sustainability. Alterity is rarely static, being influenced by policies and regulation, and the nature of institutions' alterity could have consequences for wellbeing, as different values and ideals underpin different conceptions of alterity which affect how these institutions operate. In this paper, the complexities of microcredit for enterprise lending within the UK are explored through in-depth interviews with UK 'supply-side' stakeholders. Conceptions of alterity are then used as an analytic lens to examine these results. Results suggest that these lenders remain in opposition to the mainstream as the needs of low-income individuals are embedded within their operating model. Microcredit lending is conceptualised in terms of responsible lenders offering fair credit to financially-excluded individuals using relationship banking practices. Such a conceptualisation provides a touchstone against which to assess shifts in lenders' alterity and a platform from which to introduce legislative and regulatory changes to protect these 'alternative-oppositional' economic spaces. This paper begins to outline these responses that could help to ensure and grow a more community-engaged and varied local financial infrastructure within the UK.

Keywords

Alternative economic spaces; microcredit; enterprise; financial exclusion; UK; qualitative interviews

1 Introduction

A major societal challenge in the United Kingdom (UK) is the exclusion of poorer individuals from mainstream financial institutions, such as banks. Excluded individuals struggle to access essential financial services that suit their needs and circumstances (Rowlingson and McKay, 2017; Sinclair, 2013; Leyshon, 2009). While research on financial exclusion tends to focus on personal finance (Fuller and Mellor, 2008; Collard and Kempson, 2005) and, after the 2007-08 financial crisis, small and medium (SME) enterprise lending (Appleyard, 2013) an oft-overlooked area is microcredit lending for enterprise. This form of lending has successfully reached some of the most vulnerable members of society in the Global South (Armendariz and Morduch, 2010) and emerged as one response to financial exclusion in the modern welfare states of Europe (Lenton and Mosley, 2012; Carboni et al., 2010). Typically delivered via Community Development Finance Institutions (CDFIs) in the UK, such lending institutions can be conceptualised as 'alternative' economic spaces (Leyshon et al., 2003). Yet the nature of their alterity is unclear. On the one hand, such lenders may be conceived as alternative-oppositional institutions (Fuller and Jonas, 2003). These economic spaces are considered as having the most distinctive social values and ideals, focusing on social relations and putting the interests and wellbeing of the locality ahead of profit maximization (Fuller and Jonas, 2003; Lee, 1999). This aligns with microcredit lenders use of a more socially orientated approach to lending to provide small loans to low-income people who lack collateral and credit history, and who are thus excluded from mainstream financial institutions. However, these lenders could also be conceptualised as institutions of last resort that provide a market-based response to financial exclusion and so act as a substitute to the mainstream – that is, as alternative-substitute institutions (Fuller and Jonas, 2003; Affleck and Mellor, 2006; Bryson and Taylor, 2010). The alterity of microcredit lenders may also be affected by 'mission drift' caused by the complexities of operating in a more developed economy with a welfare system and the difficulties of trying to achieve sustainability (McHugh et al., 2014; Nicholson and Dayson, 2010; Nissan and Thiel, 2008). For example, the provision of unemployment benefits, such as Jobseeker's Allowance (JSA), can unintentionally act as a disincentive to seek a microcredit loan for enterprise due to financial uncertainty around future welfare payments and business income. Sustainability can also be difficult to achieve as demand for microcredit might not be sufficient to meet the high fixed costs of small loan provision. The potential of these issues to influence lenders' operating models may have significant consequences for the nature of their alterity and, thus, the impact of microcredit on overall wellbeing. Exploring the nature of 'alternative' institutions is important as alterity is rarely static and can be influenced by policies and regulation (Jonas, 2013). Thus it is necessary to understand why a particular category of 'alternative' institution is required if decisions to protect or transform their nature are to be informed accordingly. The aims of this paper are to investigate the complexities of microcredit for enterprise lending within the UK and to consider how our results relate to conceptual categories of 'alternative' institutions.

In what follows, we begin by considering the issue of financial exclusion in the UK and the need for, and development of, microcredit lending for enterprise. The concept of 'alternative' economic spaces is then introduced and the alterity of microcredit lending for enterprise is initially considered, with a particular focus on welfare benefits and sustainability. The methods and findings of a qualitative interview study, with UK 'supply-side' stakeholders of microcredit for enterprise, are then reported. This study explores microcredit lending for enterprise in the UK through examination of financial exclusion, the conceptualisation of microcredit in the UK and the issues of welfare benefits and sustainability before using alterity as an analytic lens to examine these results.

2 Background

2.1 Financial Exclusion in the UK

Financial exclusion is prevalent among deprived communities in the UK. Thought of as both a symptom and a cause of poverty, involving the lack of access to and use of financial services, it can arise because of complex and overlapping barriers and for a range of reasons including access, terms and conditions, marketing, price and self-exclusion (Leyshon, 2009; Gillespie and Dobbie, 2010). Central to financial exclusion is its geographic nature with more deprived communities experiencing 'financial desertification', a situation in which traditional financial institutions vacate an area or market due to the cost and perceived risk of operation, meaning access to finance is limited (Bank of England, 2000). One manifestation of this is the substantial retrenchment of bank and building society branches since the late 1980s (Leyshon et al., 2008; French et al., 2008). The vacated market is then generally left to 'sub-prime' lenders, such as payday and doorstep lenders, offering usurious rates of credit (Leyshon et al., 2004; Fuller and Mellor, 2008).

The 2007-08 financial crisis further exacerbated financial exclusion among more deprived areas (Aalbers, 2009). In the UK the crisis was framed as a fiscal crisis used to justify austerity policies and banks became more risk-averse, resulting in a geographic unevenness that disproportionately affected low-income individuals (Clarke and Newman, 2012; Taylor-Gooby and Stoker, 2011; Hall, 2011; Christophers, 2015). Consequently, 'new geographies of financial exclusion' were created, particularly, in the SME lending sector as high-street banks limited lending provision to this sector (Appleyard, 2013). While the SME sector is now beginning to show signs of recovery regarding access to credit, the 'micro' end of the enterprise lending sector continues to be disproportionately affected (BDRC Continental, 2016). This form of lending relates to loans for microenterprises (businesses with 0-9 employees), start-ups and self-employment and is typically underserved by mainstream financial institutions (Responsible Finance, 2017; Lenton and Mosley, 2012; McHugh et al., 2014). The 'alternative' financial institutions serving this market are traditionally known as CDFIs in the UK.

2.2 Microcredit for enterprise in the UK

The springboard for the development of the modern microcredit for enterprise sector in the UK were the Policy Action Team (PAT) (HM Treasury, 1999) and Social Investment Taskforce (SITF) (2000) reports recommending the support and cultivation of entrepreneurship in those geographic areas considered deprived and requiring regeneration. SITF recommended a fund to service microenterprises as part of a strategy for supporting CDFIs leading to the establishment of the Phoenix Fund (2000-2006) to support enterprise-lending CDFIs (Brown and Nissan, 2007; GHK, 2004; Ramsden, 2005).

CDFIs (now rebranded as Responsible Finance Providers (Responsible Finance, 2017)) are the main UK providers of microcredit for enterprise. However other notable examples exist that are not classified as CDFIs, such as Grameen in the UK which is based in Glasgow and operates using principals similar to those developed by the famous Bangladeshi microfinance institution the Grameen Bank. CDFIs have typically been established on an ad-hoc basis to respond to local needs, use different operating models and offer different products and services (Appleyard, 2013; 2011; Kneiding and Tracey, 2009; Bryson and Buttle, 2005). Thus each institution enjoys autonomy over its operations. These institutions have a common aim to provide financial services to individuals and organisations from disadvantaged communities or underserved markets (Responsible Finance, 2017; Nicholson and Dayson, 2010; Affleck and Mellor, 2006).

It is difficult to give an accurate estimate of the extent of microcredit lending because there is no agreed upon definition of microcredit in the UK or Europe (Pedrini et al. 2016; McHugh et al. 2014). However of the 43 responsible lenders operating in the UK in 2017, 27 offered some form of business lending for microbusinesses, start-ups and SMEs (Responsible Finance, 2017). The number of microloans disbursed was down to 4,720 from a high of 12,791 in 2014, equating to £52 million in loans which is down from the high of £85 million in loans disbursed in 2016. The reduction in the number and value of loans disbursed was not related to demand but rather to the sector's reliance on, and struggle accessing, new sources of funding to on-lend (Responsible Finance, 2017).

2.3 'Alternative' economic spaces and institutions

The concept of 'alternative' economic spaces relates to areas of economic life differentiated from the mainstream through their values and ideals and alternate ways of operating (Leyshon et al., 2003). For example, this may relate to valuing social relations and community impacts more than the maximisation of profit. In relation to 'alternative' institutions, Fuller and Jonas (2003) proposed three different conceptual categories: alternative-oppositional; alternative-additional; and alternative-substitute. Alternative-oppositional institutions reject the values and identities associated with the mainstream, instead choosing to operate differently and being concerned with different values. Alternative-additional institutions provide additional choice and could be conceived as competitors to the mainstream but may not have different values. Alternative-substitute institutions are those of the last resort who do not necessarily try to be an alternative but rather aim to fill the gap in a vacated market or area left by the mainstream. This nuanced conceptualisation of 'alternative' institutions avoids binary thinking, such as alternative vs. mainstream, providing a way to analyse the need and value of 'alternative' institutions and a lens through which to view the processes that could lead to institutions transforming into different conceptual categories of 'alternative' institution (Fuller and Jonas, 2003; Jonas, 2013). For example, the alterity of credit unions has been explored using these conceptual categories.

Traditionally credit unions are conceptualised as alternative-oppositional institutions as they are primarily concerned with responsibly serving the needs and wants of their locality (as defined by their 'common bond') (Fuller and Jonas, 2003). However regulation changes, such as the loosening of restrictions for a 'common bond' (The Legislative Reform (Industrial and Provident Societies and Credit Unions) Order, 2011), and the fallout from the financial crisis, are leading to credit unions being repositioned as 'additional' and 'substitute' institutions to the mainstream (Fuller and Jonas, 2003; Jonas, 2013). While institutions offering microcredit for enterprise are distinct from credit unions they also aim to offer an 'alternative' economic space to low-income individuals excluded from mainstream financial institutions. However, the nature of their alterity has not previously been explored. This is particularly interesting in the UK where new complexities exist in the form of a welfare system.

2.3.1 The alterity of microcredit for enterprise

Microcredit can be a divisive topic. Institutions providing it aim to address financial market failures that have led, and continue to lead to the poorest in society being excluded from formal capital markets (Stiglitz, 1990). In this way microcredit can be seen as a response to financial exclusion. While the advent of randomised controlled trials (RCTs) cast doubt on its transformative effect (Banerjee et al., 2015) other innovative methods such as financial diaries have shown that microcredit can play an important role in helping individuals manage their complex financial lives (Collins et al., 2009). In the UK, results suggest that microcredit lending for enterprise could lead to poverty reduction, although this seems to be driven by a small number of relatively larger businesses employing low-income individuals (Lenton and Mosley, 2012, 2014; Dayson et al., 2010; Mosley and Steel, 2004). In terms of social impact, microcredit has been conceptualised as a 'non-obvious' public health measure capable of acting 'upstream' on the underlying causes of poor health and this is currently being empirically explored (McHugh et al., 2017; FinWell, 2018). Viewed from a different perspective microcredit has received criticism for bringing financial products to the financially excluded, transforming the 'unbankable' into the 'bankable poor' (Weber, 2004) and so contributing to the spread of neoliberalism (Bateman, 2010; Sugden, 2009). In this way microcredit is seen as a market-based approach to development. In Europe the same issues are debated with the added complexity being the existence of welfare systems (Barinaga, 2014; Affleck and Mellor, 2006).

In the UK, the provision of welfare benefits, such as JSA, has traditionally acted as a form of 'safety net' during 'socially critical periods' to reduce an individual's vulnerability and reliance upon the market (Bartley et al., 1997). However, the period of austerity and welfare reforms following the 2007-08 financial crisis has resulted in a shift of attitudes towards recipients of welfare payments, particularly those receiving JSA. The political discourse is now one of ‘strivers’, ‘shirkers’ and ‘skivers’ with recipients being stigmatised and prejudiced (Baumberg, 2016; Patrick, 2014; Valentine and Harris, 2014). In this context interest and attempts to deliver microcredit has grown and it has been described as a potential new form of welfare (Lenton and Mosley, 2012).

Lenton and Mosley (2012) describe two potential relationships between microenterprise lending and welfare benefits: benefit crowding-out and infant-industry. The former relates to the reduction of welfare expenditure if recipient’s business income (from new microenterprises) rises above the payment of income support and JSA (welfare benefits). The latter recognises that to achieve the longer-term gain of reduced welfare provision may require a short-term increase in government expenditure to aid this transition. This use of microcredit, to overcome financial exclusion and offer low-income individuals similar opportunities as the better-off in society to start their own business could be framed as these lenders acting as alternative-oppositional finance institutions. However, a less positive view could frame this lending as a market-based response to unemployment which further highlights the “growing connectivity between social security on the one hand and financial services and financial markets” (Mertens, 2017, p475) and the ‘financialisation of everyday life’ (Martin, 2002). Moreover, while microcredit is seen as a vital source of finance for migrants, immigrants and vulnerable groups in Europe who struggle to access welfare and other sources of formal finance (Cozarenco, 2015) it has also been viewed as a way for government to regulate the conduct of the outcast through banking (Barinaga, 2014). Seen in this way microcredit for enterprise lenders could be viewed as alternative-substitute institutions which embody similar values and ideals of the mainstream and only seek to fill the vacated financing gap (Affleck and Mellor, 2006; Bryson and Taylor, 2010). However, whether these lenders are actually a last resort could be disputed as those who are financially excluded from the mainstream have access to the 'sub-prime' lending market (Fuller and Mellor, 2008) and the fungibility of money means loans could be used for business purposes.

Also affecting the operating practices of microcredit for enterprise lenders is sustainability. Achieving sustainability through the delivery of microcredit is difficult even in the Global South where markets are relatively much larger and have more unmet demand than in the Global North (Bourlès, and Cozarenco, 2014; Hannam and Cheng, 2012; Armendariz, and Morduch, 2010). In the UK, CDFIs have experienced difficulties meeting operational costs of expanding into new areas, overcoming information asymmetries and coping with high default rates (Lenton and Mosley, 2012; Dayson et al., 2010; Nicholson and Dayson, 2010). For example, because of sustainability difficulties Financial Inclusion Newcastle (FIN) ceased to exist and StreetUK in Birmingham overhauled their business model to offer individual, personal loans instead of enterprise loans through group lending and joint liability (Fuller and Mellor, 2008; Esmée Fairburn Foundation, 2005; New Economic Foundation, 2004). Problems of sustainability were amplified following the withdrawal of UK public sector funding. The Phoenix Fund, and latterly Regional Development Agencies (RDAs) which dispersed the Phoenix Fund's residual monies (Lenton and Mosley, 2012; Brown and Nissan, 2007), had acted as a subsidy for enterprise-lending CDFIs. This public sector subsidy enabled CDFIs to keep interest rates low and helped them reach people in low-income communities, particularly women (Brown and Nissan, 2007; Ramsden, 2005). Following its loss, the number of CDFIs operating within the UK reduced and along with a changing market after the 2007-08 financial crisis other CDFIs altered their loan profiles towards targeting marginally better-off individuals and increased their interest rates to drive sustainability leading to accusations of ‘mission drift’ (Appleyard, 2013; Nicholson and Dayson, 2010; Nissan and Thiel, 2008). Thus the pressure to remain a financially viable entity has the ability to alter the services provided and the nature of their alterity. However, the desirability of, and reasons for, striving for sustainability has yet to be qualitatively explored.

From the literature, it is unclear which category of ‘alternative’ institution best conceptualises UK lenders offering microcredit for enterprise loans. It seems that microcredit lenders could be viewed as both oppositional and substitute institutions. But due to the complexities of operating in a more developed economy these lenders may now be more likely to be seen as a substitute for the mainstream. Alternative-substitute institutions do not necessarily embody values that are different from the mainstream. This is important given that the practices of mainstream financial institutions are responsible for the financial exclusion of low-income institutions. Thus protecting alternative-oppositional institutions, or shifting institutions towards this categorisation through policy and regulation, may be necessary for financially excluded low-income individuals to be offered finance in a way that is concerned with their wellbeing instead of profit maximisation. In what follows, the complexities of microcredit lending for enterprise in the UK will be explored with ‘supply-side’ stakeholders of this sector through examination of financial exclusion, the conceptualisation of microcredit in the UK and the issues of welfare benefits and sustainability. Alterity will then be used as an analytic lens to consider how our results relate to conceptual categories of ‘alternative’ institutions.

3 Methods

In-depth, face-to-face semi-structured interviews were conducted with ‘supply-side’ stakeholders purposively selected on their roles as practitioners, funders of lending institutions and policy expertise. Ethical approval was obtained from the Glasgow School for Business and Society Ethics Committee, Glasgow Caledonian University (reference EC 07). Participants were sent a letter of invitation and information sheet via email, given the opportunity to ask questions or seek clarification before providing written consent to be interviewed and were free to withdraw at any time.

Interviews were designed as open-ended, ‘guided conversations’, following a flexible topic guide that allowed exploration of new topics introduced by respondents. The topic guide covered issues relating to: financial exclusion, the conceptualisation of microcredit, the welfare system, lending mechanisms, operational concerns, goals and perceived impact, with probes noted to enable further exploration. Interviews were audio-recorded and transcribed verbatim. Following quality checks of the accuracy of the transcribed accounts (reading the transcripts whilst listening to the soundfiles), the ‘cleaned’ transcripts were imported into NVivo 10 (QSR, 2014); a qualitative software package used for coding. Initially, data-driven, descriptive codes were attached to sections of text, and applied systematically through all transcripts, as a means of indexing the data. More-focussed coding followed, specifically around the aim and objectives of the study. As a coding tree was constructed, superordinate codes were introduced, collecting similar sub-codes under higher order codes and these were used to develop themes.

Thematic analysis was used to identify relationships and connections between different 'pieces' of interpreted data while preserving respondents' own interpretations, language and experiences (Braun and Clarke, 2006). The principles of constant comparison (Glaser and Strauss, 1967) were used throughout data analysis, as data collection and initial analysis occurred concurrently. This enabled exploration and possible refinement of initial candidate themes and sub-themes with respondents. Contradictory or 'deviant cases' were identified, as themes were constructed, to challenge and strengthen the analysis, and describe the nature of divergence as well as consensus (Seale, 1999). Following coding and descriptive analysis, we related findings to the different categories of 'alternative' institutions proposed by Fuller and Jonas (2003): alternative-oppositional; alternative-additional; and alternative-substitute.

4 Results

4.1 Sample

17 interviews were conducted between February 2013 and May 2014. Interviews lasted between 25 minutes and two hours; with an average duration of approximately one hour. Drawing on concepts of data saturation, recruitment closed when no new views generated new candidate themes or sub-themes and additional data served only to reinforce existing findings. Respondent information is shown in Table 1. We provide only limited descriptive information about respondents in order to preserve anonymity – the small size of the UK microcredit sector meaning that identifiability is a possibility and an ethical concern.

[insert Table 1 here]

Respondents classified as ‘lenders’ were predominantly providers of microcredit loans for enterprise. The exceptions were L2 a CDFI offering personal loans that had decided against offering loans for enterprise and L3 a credit union exploring the potential of diversifying into enterprise loans following changes to credit union legislation (The Legislative Reform (Industrial and Provident Societies and Credit Unions) Order, 2011). These two respondents were included for their unique perspective on enterprise lending in the UK. Funders included organisations directly financing institutions offering microcredit for enterprise through wholesale lending, grants, or the distribution of a specific loan fund. ‘Policy’ respondents were employees of government institutions with specific knowledge of previous or ongoing UK microcredit initiatives, representatives of business and lending associations and researchers with relevant topic and policy expertise.

In what follows, the study findings are grouped into four sub-sections: financial exclusion, conceptualising ‘microcredit’, operating context and the value of lending – and explained with interpretations and implications considered in relation to the literature, theory and broader context (Braun and Clarke, 2006). These categories provide insight into the need for, and development of, ‘alternative’ institutions offering microcredit for enterprise in the UK and are used to explore the processes that could affect the transformation of such lenders into different conceptual categories of ‘alternative’ institution.

4.2 Financial Exclusion – *“fools, family and friends”*

Our sample described a desolate landscape of small-scale business finance available in the UK. Retail banking is dominated by five banks, Lloyds Banking Group, RBS, HSBC, Barclays and Santander, who account for around 75% of the market (UK Parliament, 2014) and it is recognised that "*there is no (….) local financial infrastructure left in the UK"* (P6). The lack of financial diversification has meant that sources of business finance became particularly scarce following the 2007-08 financial crisis as mainstream lenders became more cautious and rise averse in their lending (P2). These lenders already lacked the necessary skill-set to adequately judge the viability of lending to individuals ill-suited for credit scoring models (L4, P6, F2) and typically viewed these products and prospective borrowers as *"not commercially viable*" (P4) because of high transaction costs and low profit margins (L7, P7).

The unreceptive environment of mainstream lending was noted as a contributing factor to prospective borrowers self-excluding from financial markets because of the belief "*banks are not the place for us"* (P6). Respondents cited lack of confidence and feelings of disenfranchisement and disempowerment as reasons for prospective borrowers failing to engage with the mainstream (F2, L4). Consequently, such borrowers turned to informal sources of finance – "*fools, family and friends are the classic sources of that early small scale start-up finance"* (F1) – as they lack the networks to gain finance elsewhere (L1).

4.3 Conceptualising 'microcredit' – "*Development goes on elsewhere"*

The term 'microcredit' was considered, by some respondents, to be useful when addressing specific audiences, such as business groups or those in the financial industry but the term has connotations that meant some lenders actively avoided using it. It was associated with the 'developing world' and related to a different model of lending, product and need (P4) but more fundamentally there was a general unwillingness to engage with concepts stemming from development because of unwanted associations:

> *"I think partly it is because notions of microfinance have been very much connected to development and so in the UK context that would be viewed as certainly 'Third World development'. Development goes on elsewhere*" (P7).

Using the term 'microcredit' with UK borrowers was seen as problematic with 'micro' signalling small and insignificant:

> *"I wouldn't want to belittle what they are doing and something that feels difficult for them I am dismissing it as something that is easy and small, it would sound patronising I think. No, I wouldn't use it for them"* (L8).

Alternative terms such as 'business loans' were used as they better reflected the significant undertakings of borrowers and would be less likely to create unwanted barriers to lending. Despite the opposition towards using the term 'microcredit', respondents shared the view that ultimately, for the wider microfinance sector, microcredit is "*all about lending methodology"* (P6) which was related to 'relationship banking' and practices more typically used by UK banks in the 1970s and 1980s:

> *"It's a very person focused.. all of our customers.. we do one to one interviews with them, we spend time engaged with them as individuals. We don't do credit scoring and we don't just take some data and say sorry. It's very much about the individual, their needs, their abilities, what they can afford, what they need at this moment and making judgements about that."* (L4).

This form of person-specific lending was seen, by a number of respondents (L1, L4, L6, F2), as a way to construct a picture of a borrower's circumstances. The borrower benefits from lenders' assessing whether the loan is right for them or whether (further) debt could be detrimental. The lending process enables the lender to consider the viability of borrowers' business plans, to assess skills and knowledge and to ask about support networks that might help borrowers cope with loan repayments – all of which reduces the lender's risk. Such practices would also limit the risk of displacing existing, similar businesses within local communities. As businesses can always fail, the importance of offering post-lending support was acknowledged to ease any fall-out from business failure and ensure that borrowers were made aware that "*it is not a personal failure*" (L5). These practices were considered as the hallmarks of a *"responsible lender"* (L6) with the interests of the borrower placed first.

Although the size of loans is part of some definitions of microcredit, it was not seen as a defining feature amongst interviewees who considered loan size to be fairly arbitrary *"How micro is micro you know…"* (P1). Microcredit was conceptualised as loans to those excluded from mainstream banks because the loan size was considered uncommercial (P6, L8). This must be combined with responsible lending and recognising that not all individuals are suitable for loans. Consequently, it was held (particularly by lenders) that in serving areas of market failure providers of finance must have financial and social goals:

> *"it's better that it's not the high street bank, it's better that it's somebody else who has got a wider agenda, i.e. the health, wellbeing of the individual and that community as a whole. You know the development of that community"* (L6).

> *"We are not a traditional lender so I think [with] microcredit you are not just taking into account credit checks and all the rest of it, it is looking at the overall benefit to that person in their life not just the bottom line in finance"* (L5).

4.4 Operating context – "*whether it can work in a country like the UK with a well-developed benefit system*"

Sustainability was a contentious issue that divided respondents, but there was broad agreement that the welfare system brought additional complexities to lending. All but one of those interviewed deemed sustainability was not possible because "*if it's commercially viable the market can do that*" (P4) and if lenders strived to be sustainable then 'mission drift' would occur. The main concern was abandoning lower-end micro loans in favour of attracting higher-end customers, in the form of SME lending, which can increase profits and reduce risk through a more diversified lending portfolio (P4, P6). Relatively high interest rates were considered as an unavoidable by-product of offering a product and service tailored to borrowers' needs and not a major issue as the poorest borrowers were perceived as being more concerned with the size of their repayments (L4, L8).

To ensure this type of lending continues and is sustained almost all respondents believed that government-backed subsidies were necessary. However, it was felt that public sector funding should not be distributed indiscriminately but rather towards the *"leading lights [the best performing lenders]"* (P6) to drive the sector forward and that given previous UK Government policies there was a supportable case for this type of funding. In particular, Project Merlin (HM Treasury, 2011) was implemented to encourage mainstream banks to extend business finance but non-bank lenders were ineligible to receive it:

> *"If you look at government programs (..) to support enterprise, funding for lending, the Bank of England program if you are familiar with that, to give cheap capital to banks. Some of this stuff just makes your, you know CDFIs weren't allowed to participate in that. They are giving cheap capital to banks to then on-lend and they weren't doing it, but they thought that would be the easier way .....*" (P4).

An opposing market-based view was taken by L4 (the 'deviant case') who viewed subsidies as a symptom of a lack of discipline, pervasive in the operations of non-bank lenders, and that what was needed was a more business-like approach:

> *"…we've made staff redundant or fired them if they're not good enough. Doing things that are tough things to do, but like I say if you want to be a good organisation and sustainable and deliver good services for the long term you have to be willing to do these things. (...) If we've got things that aren't working very well we have to be willing to shut them down. It's that kind of discipline which commercial organisations have to do. And I guess in some parts of the charitable and not for profit sector there is a reluctance to do those things (……) So yeah, that's what I mean by discipline I guess"* (L4).

Lack of discipline was linked to managing bad debts where high write-off rates were considered a result of either bad underwriting or an inability to reclaim money. However, some respondents felt other reasons were responsible for high default rates in the UK, such as "*it is becoming increasingly easy to divest yourself of your debts*" (L1).

Demonstrating the commercial viability of this market through sustainability was, for L4, a way to encourage more lenders to enter the market and so reduce the unmet need for finance in the UK:

> *"So our view is we want to show people that you can do it, that you can make a modest profit, a modest surplus, and then there's no reason why other people don't copy. We're trying to persuade the mainstream that they could behave differently. So it is important to us that these things are financially robust*" (L4).

While most respondents believed subsidies were necessary there was some agreement about the potential distorting or destabilising effects of them on the market and a lender's operating model with particular concerns related to moral hazard – borrowers being less likely to make repayments and lenders feeling less compelled to recoup all loans. Additionally, independent lenders (those without public money) would struggle to compete against government-supported institutions that would be able to offer substantially lower interest rates given the reduced pressure to recycle loans (L1).

An issue affecting both borrowing and lending in the UK and that generated consensus was the complexity of operating within a welfare system:

> *"The other thing is whether it can work in a country like the UK with a well-developed benefit system and how it interacts with benefits, and whether potential loss of benefits might arise through receiving the loan"* (P2).

Transitioning from welfare was seen as entailing significant risks for prospective borrowers. How eligibility for welfare benefits would be affected was a major concern particularly as there would be a delay before a business generates enough money to begin to compensate for loss of welfare payments and it was thought that following business failure borrowers would likely face a delay before receiving their full, eligible welfare payment again. Moreover, the tax payments required from a formal, legitimate enterprise meant that in some cases individuals were considered to be financially better-off remaining in the informal economy. Consequently, making this transition was not believed to be suitable for everyone and that because of the risk and difficulty of the undertaking it must be an active choice:

> *"I think there is an element in the Job Centres which says if you can't get a job why don't you try self-employment, I think that does happen. I think that is not enough motivation for them to do it and so I think they must be making a conscious choice, right I am going to do this and not I have got no choice so I will have to do this. I am pretty sure that none of them have made that choice I think it has been a much more positive thing than that, they have wanted to do something for themselves and it is not that they have had no other option."* (L8).

Lenders relationship-banking processes and use of 'better-off calculators' were considered as ways to reduce borrowers risk and to provide more detail on the possible financial ramifications of their decision (L6, P7, L8). However, a more substantive policy need was the introduction of a test trading period where individuals' benefits are frozen:

> "*to test trade or you allowed to have your benefits froze for say six months because a lot of it is fear, people don't want to do it because they are too scared that they will lose their benefits and they will be in a worse position than they were before.*" (L1).

Having more individuals willing to borrow would increase the market size for lenders aiding sustainability and in the long-run public expenditure savings could also result (P3, P4, L4):

> *"Well they create their own job. I always think if they create their own job and they are reducing the amount of benefit that they are claiming. Most of our clients at that kind of level are all still on benefits but they will be on less benefits"* (L1).

4.5 The value of lending – *"I can't say that they're healthier.... but you can see it"*

Aside from the creation or maintenance of a business, for lenders the ultimate aim or "*end game*" (P6) of loan provision was to act as a stepping-stone to mainstream lenders:

> *"And after a while if they want to be able to move in to get some mainstream providers, we equip them with the skills and confidence but also with a credit history that allows them to access the mainstream. So we give them a credit footprint which they previously didn't have"* (L4).

The importance of this relates to the wider array of products and services, likely at a cheaper price that would be opened-up to borrowers.

Respondents recognised the potential of social impact for borrowers. Lenders and policy experts believed that borrowers gain in confidence through the validation of their ideas and abilities, and approval of their business plan by others. This was seen to contrast with borrowers' experiences with high-street banks that led some to self-exclude from mainstream lending institutions (P6, F2, L4). Establishing and running a business was thought to reinforce self-esteem and control and have a positive effect on individuals' status in their community, avoiding the stigma associated with unemployment and potentially even casting them as role models:

> *"……from our point of view, on a personal level, it is giving them huge confidence and self-belief. Often the people we are funding will have come through life being told they can't do things, they have maybe struggled at school. Whatever it may be this is a real confidence builder it is giving them the opportunity to take control ….. and this gives them the opportunity to settle and build something for themselves of value, self-esteem I guess"* (L5).

> *"The people who have come to me to borrow money are just desperate to get off the system. They don't want to be on benefits, they feel - not exactly ashamed - but something like that and they just want to prove themselves, they want the dignity of earning a living and they just want to get off them. They say a lot of negative things about what it is like being on benefits and the way they are treated and people's attitude to them, and they want to be something for their children or their partner or something. There is all reasons why they don't want to be on benefits so they are prepared to risk losing them (...) they know there is a stigma and they know people think they are lazy and so on .."* (L8).

While respondents were able to articulate certain determinants of health and how they are perceived to be impacted, it was observed that lenders lack the capacity to conduct evaluations and quantify impact; relying instead on human interest stories or case studies. This caused frustration due to the inability of lenders to demonstrate the value of their lending which could be used to justify subsidisation:

> *"This is I think an area that's not explored at all. The health, mental, physical health aspects of this arena I think are quite unique when you're looking at the markets that our members are focused on and that quantification I think is sorely lacking to sort of state the case, and that makes it very difficult"* (P4).

5 Discussion

This paper provides new empirical insights into the issues that are affecting the alterity of microcredit for enterprise lending in the UK. Such lenders appear to be acting in opposition to the mainstream as the needs of low-income individuals are embedded within their model of operating. However, the pressures of operating in the UK, caused by funding issues and complications reaching borrowers receiving unemployment benefits, have the potential to shift their alterity from oppositional towards being viewed as substitutes to the mainstream. Offering an 'alternative' economic space geared towards the needs and welfare of low-income individuals remains vital as the UK market is dominated by the commercial interests of the mainstream. These interests are the cause of financial exclusion among low-income individuals. This study also offers ways to protect this 'alternative' space.

5.1 Microcredit for enterprise lenders as alternative-oppositional institutions

Microcredit provision was conceptualised, by providers and experts in this study, in terms of responsible lenders offering fair credit to financially excluded individuals using relationship banking practices. While microcredit could be viewed as a lender of last resort to some individuals, importantly it is conceived as having different values to the mainstream. It is seen as a new socially orientated form of banking from the bottom up which is a direct response to financial market failures. This conceptualisation roots this form of lending in direct opposition to the mainstream as the needs and welfare of low-income borrowers and their community are given prime importance. This manifests in their more expensive and more intensive relationship-baking practices that aim to lend to the financially excluded in a responsible way. This form of lending is in direct contrast to the credit scoring technologies typically used by mainstream lenders that have replaced the face-to-face assessment of credit worthiness (French and Leyshon, 2004; Leyshon and Thrift, 1999). Rather than focusing on a number to make an assessment of creditworthiness, the person-centered approach employed by microcredit lenders aims to holistically consider an individual's situation, placing the interests of the borrower ahead of maximising profit. Consequently, social impacts, in the form of confidence, self-esteem and control over their own life, were perceived to have occurred not only from the establishment of a business but also from the lending process. Sensitivity to borrowers is further demonstrated by avoidance of the term 'microcredit' incase its use undermines or belittles the borrower in any way. Paradoxically, a consequence of this relationship and person-centered form of lending is that it contributes to the sustainability issues which are jeopardising lenders ability to retain their opposition to mainstream lenders.

The issue of sustainability is at the heart of the struggle between different forms of alterity. Tension exists among stakeholders between the contrasting beliefs that a more market-based approach is required to make provision of microcredit sustainable in the UK versus a subsidy-backed approach to provision that views sustainable microcredit provision as impossible without 'mission drift'. Currently the market-based approach is the minority view but without alternative sources of funding it may be necessary for microcredit lenders to embody more and more mainstream practices. What is unclear is how far microcredit lenders will go in this regard and thus how similar they could become to mainstream providers. There are already signs of 'mission drift' in the UK sector as seen through the charging of higher interest rates and the targeting of marginally better-off individuals (Nicholson and Dayson, 2010; Nissan and Thiel, 2008). This study provides a key indicator to judge this transformation – lenders' commitment to a responsible relationship-banking approach. If this becomes jeopardised then microcredit lenders may no longer be in opposition to the mainstream.

5.2 Microcredit for enterprise lenders as alternative-substitute institutions

Interestingly, the aim of microcredit providers to prepare individuals for progression to mainstream lenders by providing them with a credit history could undermine their conceptualisation as an alternative-oppositional institution. Respondents' criticised commercial lenders in terms of their goals and standardised products – commercial lenders are unlikely to focus on the interests of the individual and community ahead of profit and microcredit providers only exist because of the failures of mainstream lenders. However, through their (more expensive, more intensive) methods, microcredit providers create ready-made borrowers, for the mainstream, from individuals the mainstream excluded. Thus the presence of these lenders may enable the mainstream to continue, and advance, their withdrawal from low-income areas and to focus on more profitable and perceived less risky individuals. Yet this stance could also be interpreted as further evidence of microcredit providers placing the interests of their borrowers first. Mainstream lenders offer a greater range of products, services and opportunities that could benefit a borrower's life, such as being able to receive a mortgage. Microcredit lenders are inhibited from keeping their customers and offering an alternative, viable route to financial inclusion, by unsuitable legislation; for example, unlike credit unions they cannot open savings accounts for borrowers. So this could be perceived as further evidence of their oppositional alterity as microcredit lenders are prepared to, and actually aim to, let their clients move on to a different institution which they believe will be beneficial for their lives.

5.3 Microcredit for enterprise lenders as alternative-additional institutions

While microcredit lenders do offer additional choice to individuals who may otherwise be left seeking 'sub-prime' or informal sources of financing, this choice does not place them as direct competitors to the mainstream. This is illustrated by their goal of progressing clients to mainstream lenders by acting as a stepping-stone and their lending practices and social mission which make them distinguishable from the mainstream and more like alternative-oppositional institutions.

5.4 Protecting this 'alternative' economic space

It must be recognised that the context of this discussion is a UK policy environment that is still dominated by austerity measures. This has seen market incentives and business principles encroach into social welfare provision, the impact of cuts being more acutely felt by the poorest groups and communities and the creation of 'new geographies of financial exclusion' (Appleyard, 2013; Hastings et al., 2015; Roy et al., 2017). However, an opportunity exists to ensure and grow a more community-engaged and varied local financial infrastructure within the UK that promotes financial inclusion and offers an 'alternative' economic space for low-income individuals and communities in opposition to mainstream financial institutions. This is important as it does not seem enough to merely target financially excluded individuals through any form of institution, these individuals tend to be among the most vulnerable in society and so their wellbeing should be of central concern. Alternative-oppositional institutions are best placed for this as the interests and wellbeing of their locality are central to their mode of operating (Fuller and Jonas, 2003; Lee, 1999). Protection of this space will require Government action through legislative and regulatory changes which may be difficult to achieve in the current austerity paradigm. However, such changes have the potential of ultimately benefitting the economy by addressing financial market failures and making society fairer by providing entrepreneurial opportunities, in a responsible way, to a demographic of society traditionally excluded from such opportunities.

Legislation changes are required to recognise this tier of financial provider. The importance of legislation can be seen from the credit union movement in the UK which flourished following the 1979 Credit Union Act (National Consumer Council, 1994). This formalised the requirement of the 'common bond' which enabled credit unions to determine creditworthiness through members' commitment and ability to save rather than other more typical forms of collateral or financial indicators. Similar legislation, tailored to the microcredit sector, could help further embed microcredit lenders within their locality, formalise the type of provision required to be considered a microcredit lender and enable microcredit lenders to offer additional products/services such as bank accounts and savings products. Preventing the implementation of specific legislation and regulation to govern provision has been the lack of clarity in definitions of microcredit in the UK and Europe (McHugh et al., 2014; Pedrini et al. 2016). However, the conceptualisation offered here – responsible lenders offering fair credit to financially-excluded individuals using relationship banking practices – provides a way to differentiate this form of lender in the market and to safeguard the alterity of these institutions as oppositional to the mainstream.

In conjunction with legislation around the provision of lending, securing the long-term viability of lenders operating with their more expensive and intensive relationship banking practices remains key to retaining this 'alternative' economic space. At the time of writing, no microcredit for enterprise UK lender is yet fully sustainable. Government needs to recognise this and provide an environment that enables microcredit lenders to seek an approach to financing that is unique to their own needs. The introduction of a UK Community Reinvestment Act (CRA) could help to distribute additional funds from banks who deny access to individuals seeking microcredit to institutions prepared to service this market (Appleyard, 2013; Appleyard 2011). Other potential approaches include 'smart subsidies' – designed to limit market distortions and miss-targeting of borrowers while maximising social benefits (Morduch, 2007) – and business development subsidisation which has been proposed as a route to improve financial inclusion (Bourlès and Cozarenco, 2014). Failure to address this issue will contribute to the pressure felt by microcredit lenders to move towards practices that favour financial viability in order secure their existence and ability to operate in some way.

In Europe, and especially within the UK, the welfare system represents another key aspect of legislation which microcredit providers and borrowers need to contend with. Respondents recognised the complicated nature of engaging with this system that can create uncertainty and risk for the borrower and so disincentives to participate in microcredit. In the UK, JSA requires an individual to be able and available to, and actively seeking, work and to document the ways in which employment is being sought in a 'Claimant Commitment' agreed upon with benefit advisers (UK Government, 2016a). Regular meetings with advisers are enforced through a system of sanctions (i.e. an individual's benefits may be cut). Thus, there is a risk that the act of taking a microcredit for enterprise loan means borrowers forsake welfare payments before a business is established. Not only is clarity needed around this issue but if transitioning from unemployment benefits to business is to be a real option then vulnerable individuals require further financial and business support.

Since the 1980s the UK has provided monetary incentives to encourage welfare recipients to transition from benefits into enterprise (McGuinness and Dar, 2014). Currently this is the New Enterprise Allowance (NEA) scheme. NEA is available to welfare recipients aged 18 or over who have had a business plan approved by a business mentor and started trading (Brown, 2017). Support includes a weekly allowance worth £1,274 over 26 weeks, paid at £65 a week for the first 13 weeks and £33 a week for a further 13 weeks. However, this support is unlikely to be extensive enough to de-risk the transition. For microcredit for enterprise to be seen as a genuine option for vulnerable individuals then more extensive, supportive policies are needed. For example, the Republic of Ireland offers a more comprehensive welfare scheme – the Back to Work Enterprise Allowance (BTWEA) – which enables eligible individuals to continue to receive 100% of their social welfare payments for the 1st year and 75% for the 2nd year as they make the transition to enterprise (Citizens Information, 2014). Along with a focus on Working Tax Credits (WTC) – a means tested welfare payment (UK Government, 2016b) – such infant-industry type policies would help ease individuals' financial pressures while they try to earn income from established business (Lenton and Mosley, 2012). It is unknown what affect the introduction of Universal Credit – one credit payment replacing six other benefit payments, including JSA and WTC (UK Government, 2017) – will be, but early evidence suggests it is causing recipients to experience more debt and financial insecurity (Foley, 2017).

6 Conclusion

This paper has generated new insights into an oft-overlooked 'alternative' economic space in the UK, the provision of microcredit lending for enterprise. Institutions offering this product, typically CDFIs, emerged in opposition to mainstream financial institutions and sought to service the financially excluded by offering loans in a different way. The conceptualisation provided here of these institutions as responsible lenders offering fair credit to financially-excluded individuals using relationship banking practices provides a touchstone against which to assess their alterity. Lenders acting in this way can be considered as alternative-oppositional institutions, as the principal of profit-maximisation is rejected in favour embedding the needs and welfare of individuals, and their communities, into their model of operating. However, this way of operating suffers from pressures of sustainability, further exacerbated by the welfare environment in which lending takes place. Consequently there is a danger that the values and ideals underpinning microcredit lenders could be eroded with concerns about financial viability influencing their mode of operating. This does not appear to have occurred yet but without legislative and regulatory changes enacted by Government to protect this ‘alternative’ economic space, lenders’ responsible relationship-banking approach may become jeopardised. Thus instead of the creation of a more community-engaged and varied local financial infrastructure in the UK, this tier of financial provider may find itself resembling, and indeed being in service to, the mainstream, which could have damaging effects on the wellbeing of those it actually seeks to serve.

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